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Prime Minister Mossadeq's continuation in office indicates no change in those policies which have led Iran to the brink of economic and financial collapse. There is little hope, under present conditions, that oil revenues will be restored or that an appreciable change in Iran's economic status can be achieved. The opposition is unorganized and the Shah appears afraid to act decisively.

LIBYAN INDEPENDENCE GIVES IMPETUS TO NATIONALISM IN FRENCH NORTH AFRICA Page 8

Libya's achievement of independence has encouraged nationalist hopes for sovereign rights in French North Africa. Although French determination to maintain control has helped to prevent a strong united movement, the nationalists will intensify their agitation to obtain international support for self-government.

THE PRESENT STATUS OF THE GERMAN CONTRACT Page 10

Basic agreement has been reached on the contract which is to govern the relationship between West Germany and the Allied powers, but many details must yet be worked out before the General Agreement replaces the Occupation Statute.

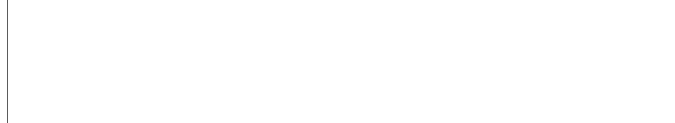
German parliamentary ratification of the contractual arrangements seems assured.

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CHINESE NATIONALIST POLITICAL DEPARTMENT IMPEDES US EFFORTS TO REORGANIZE ARMED FORCES Page 12

The activities of the Political Department of the Chinese Nationalist Ministry of National Defense are seriously impeding US efforts to reorganize the Nationalist Armed Forces. Recently, however, some modifications have been made in the program of that Department in an attempt to assure continued American support for the Nationalist Government.

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SPECIAL ARTICLE. CURRENT SOVIET POLICY TOWARD JAPAN Page 14

Since the San Francisco Conference, Moscow has apparently adopted a policy designed to neutralize Japan as a potential threat to the Soviet Union. A secondary objective of the Kremlin is to create a trade pattern which will obtain some benefits from Japanese industry for the Soviet Orbit in the Far East. Soviet plans also call for a militant Japanese Communist Party program.



THE SOVIET WORLD

Soviet propaganda has recently characterized the guerrilla struggles in Indochina, Burma, Malaya, the Philippines and Indonesia as examples of "just wars." In a theoretical discussion carried by Red Star, members of the Soviet armed forces were warned against "bourgeois pacifism" in a manner reminiscent of a similar article in Red Fleet two years ago which pointed out that Bolsheviks would not necessarily be opposed to all wars.

In the Soviet lexicon, "just wars" are divided into three categories: revolutionary wars, wars of national liberation, and "the sacred war in defense of the first Socialist state in the world." The war of national liberation differs from the revolutionary war in that it provides for the sort of assistance North Korea is receiving from the USSR and China, and the aid afforded the Viet Minh by Communist China.

The Red Star article apparently has the purpose of further delineating the dialectical line between "aggressive" military moves of the West and "liberative" military actions of the Communists.

Dissatisfaction with the security setup in the USSR, at least in the Central Asian area, had already been indicated by high-level personnel shifts in October and November resulting in the replacement of both the Kazakh and Uzbek MGB Ministers.

These shifts were preceded by reports of "widespread" peasant revolts in Kazakhstan last August, which were considered exaggerated at the time. In December, however, there was a shakeup in the political apparatus governing that area. It is possible, therefore, that a deterioration of the security situation in Kazakhstan, and perhaps elsewhere in Central Asia, resulted in dismissals on an even higher level.

Further evidence of the stresses and strains on the Soviet transportation system is noted in some recent developments. The new Soviet trade agreement with Finland provides that Finland supply foodstuffs and other commodities directly to the city of Leningrad. This highly unusual arrangement will relieve overburdened Soviet rail transport facilities of the necessity of bringing perishable foods over longer hauls from within the USSR to Leningrad, and also obviates the necessity of tying up scarce refrigerator cars.

Deficiencies in rail operations, possibly in vital links serving the Trans-Siberian Railway, were indicated by sharp criticisms directed at the USSR Minister of Rail Transport and the Chairman of the Rail Trade Union Central Committee, during a recent conference in Moscow. Veiled references were made to accidents on the Gorky and Ufa sectors of the railroad, and it was apparent that responsible officials had recently been either actually tried in court or penalized.

The comparatively prompt release of the four US fliers by Hungary following US agreement to pay their fines, and the fact that the fliers were finally tried only on the charge of intentional border violation are in distinct contrast to the violent public accusations by Vyshinsky in the UN and Hungarian propaganda that the fliers were engaged in an espionage mission. These developments suggest that the Communists felt they had gained the maximum initial propaganda value from the case and, anticipating a strong US reaction such as economic reprisals should the matter drag on much longer, desired to prevent an irreparable worsening of US-Hungarian relations. Since the fliers' release, Orbit propaganda has pointed to the payment of the fine as proof that the fliers were guilty of the Hungarian charges.

Because of the increasing amount of money in circulation in Czechoslovakia, there is the possibility that a currency reform may take place there in the near future. The new currency is reportedly being printed in Hungary where a number of printers have been confined to their plants since 19 December.

In Poland, the recently announced charter for shipbuilders, which provides a large number of special economic benefits and premiums for workers in this industry, suggests that the Soviet bloc realizes the growing difficulty in obtaining ships elsewhere and the fact that it will have to depend increasingly upon the Polish merchant marine.

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ANALYSIS OF THE SITUATION IN IRAN

Prime Minister Mossadeq's actions since taking office indicate that he will continue those policies which have helped create the present rift between Iran and the Western powers. Since he is expected to remain in office following the current elections, this would mean further economic and political deterioration in Iran and a general weakening of the Western position there. This in turn would lead ultimately to a disintegration of central authority and pave the way for a Communist coup.

Mossadeq's policies have driven Iran to the brink of financial and economic collapse. British economic restrictions and loss of the oil revenues have left the government with financial resources sufficient for only a few more months. Mossadeq may be able to delay full financial breakdown with such stopgap measures as foreign aid or debasement of the currency. There appears, however, little chance on the basis of recent Iranian statements that the oil dispute will be settled and oil revenues restored.

Moreover, Mossadeq has insisted that he will not sign the agreement called for under the Mutual Security Act, signature of which is necessary if Iran is to receive either economic or military aid from the US as provided for by that Act. Mossadeq has stated that if a formal signature is required, the Iranian Parliament will have to approve, something which it is unlikely to do in its present mood.

The pressure of economic necessity may already have induced Mossadeq to bargain with the Soviet bloc. Through barter agreements, trade missions and the possible purchase of oil, the USSR will have the opportunity of increasing its influence in Iran.

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Mossadeq's insistence on civil liberties has already greatly facilitated increased leftist influence and activity inside Iran. In view of the probable success of the reported plan of Communists and pro-Communists to run disguised candidates for Parliament under other labels, the next Parliament may be expected to contain a few such men. Unless Mossadeq radically reverses his attitude, he will resist their expulsion.

Opposition to Mossadeq is unorganized. The Shah, pivot of any opposition attempt to replace Mossadeq with a more conservative prime minister, appears to be torn between his fear that Mossadeq's policies will prove disastrous for Iran and his long-standing distrust of the leading opposition candidate.

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The army is at present considered loyal to the Shah and capable of supporting the military rule which would be necessary if the Shah were to oust Mossadeq over nationalist objections.

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While financial difficulties are endemic to Iran and complaints normal in any army, there is the risk that an enlargement of these conditions within the Iranian army will seriously reduce its capability of supporting the central government. Mossadeq's known bias against the army is an additional factor making for its deterioration.

A key factor in the situation is the Shah's unwillingness to assume the responsibility for instituting a new government by force. In recent days he has appeared not only impressed by Mossadeq's success in ousting the Anglo-Iranian Oil Company, but paralyzed by the fear that an attempt to overthrow Mossadeq might react against the monarchy and result in its removal. The present trend, if continued, may result in a steady lessening of the Shah's influence to a point where decisive action on his part would not only be improbable but impossible.

LIBYAN INDEPENDENCE GIVES IMPETUS TO NATIONALISM IN FRENCH NORTH AFRICA

United Nations' sponsorship of Libyan independence has had a strong influence on nationalism in Tunisia, Morocco, and Algeria. By its close and consistent interest in Libyan affairs, the United Nations has given North African nationalists hope that independence may be achieved by peaceful means. Although outwardly French North Africa has shown few signs of interest in Libyan independence, nationalist leaders, particularly in Tunisia, are acutely conscious that a more backward area has quickly achieved the goal for which they have struggled for decades.

French determination to maintain control of these countries has placed serious obstacles in the way of a strong and united nationalist movement. The French have also adroitly emphasized racial and religious animosities, have alienated leaders from their followings by successfully appealing to their venality, and have attempted to diminish the parties' prestige by charging that nationalist leaders are under Communist domination.

In order to still the increasingly vocal nationalism of Tunisia, the French reorganized the Tunisian administration with nationalist participation in mid-1950. There were no real concessions, however, to the demand for greater self-government, and Tunisian nationalists are now seeking means of securing UN intervention.

The encouragement given Moroccan nationalism by Libyan independence has thus far been more than counterbalanced by French efforts to quash it. Police and military forces have been employed, and nationalist leaders have been imprisoned or their movements restricted. After direct appeals to the United Nations proved fruitless, Moroccan nationalists prevailed upon Arab League states to present their charges that France is violating human rights in Morocco. Postponement last month of the UN discussion has somewhat alleviated French-Moroccan tension, but the threat of eventual inquiry challenges the French to accelerate and liberalize proposed administrative changes. It also compels the Moroccan nationalists to strengthen their organization and draw up a workable program which could command consideration.

Although Algeria is politically an integral part of metropolitan France and the Algerians have been fairly well assimilated in the 120 years of French rule, a strong desire for independence exists. The French have employed somewhat more subtle means to destroy nationalism in Algeria than in the protectorates, but elections have been rigged in order to eliminate the few nationalist representatives who could have been elected.

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For its own part, nationalism has not yet eliminated intraparty strife and jealousy, and national unity has not been achieved in any area. Resentment against French rule is strong and widespread, however, and the framework for collaboration among the various nationalist groups has been constructed. Growing political awareness, continued agitation, and constant appeals for international attention may be expected.

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THE PRESENT STATUS OF THE GERMAN CONTRACT

The Allied powers and the West German Government reached a basic agreement on 22 November regarding the contract which is to mark the end of the occupation and establish a new relationship. Many conflicting interests still need to be reconciled and many of the main points of the General Agreement remain to be worked out in detail. Five annexed conventions are being negotiated to settle these difficult Allied-German problems.

The preamble of the proposed General Agreement stipulates that the Federal Republic must join the Schuman Plan and the European Defense Community either before or at the time the agreement is promulgated. The agreement grants the Republic full authority over its foreign and domestic affairs, except for the rights the Allies now enjoy in respect to (a) Berlin, (b) the security and status of their troops in Germany, and (c) problems relating to Germany as a whole, including unification and the peace treaty.

The Allies are empowered to declare a state of emergency if their forces are endangered, but they have agreed to consult with the Federal Republic before doing so, and they will permit the Germans to appeal to the North Atlantic Council. A mixed arbitrational tribunal will act on all disputes arising under the agreement save those involving the three reserved rights and the emergency declaration power.

Concurrence has not as yet been reached on any of the conventions, but little difficulty is anticipated in at least three of the five. On the first of these, which relates to the arbitrational tribunal, only minor procedural differences remain. The second convention exempts Allied troops and their dependents from certain German taxes and from criminal and, in special instances, civil court jurisdiction. The third convention is a catchall transferring responsibility for certain occupation programs to the Germans.

The Germans will probably agree to enact legislation preserving occupation laws in these fields, and to provide information concerning the execution of these programs as the Allies may direct.

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The fourth convention, which deals with German security controls, provides the most difficult problem at present.

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France would like to impose stringent restrictions on German arms production, particularly of heavy weapons, but the US would like to make fuller use of Germany's productive capacity. A compromise solution may permit Germany to manufacture some types of heavy weapons under the direction of the European Defense Community,

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The last convention treats of German logistical support to the Allied forces.

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Allied negotiators may ask the Germans to accept the general principles upon which this allotment will be based, leaving the specific sum for further discussion.

The proposed contract may be unacceptable under the present West German constitution.

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Although agreement may be reached in January, the contract and its conventions cannot be ratified until France and Italy, at least, have joined the EDC. Adenauer will then present Parliament with the contract, its conventions, and the proposal for membership in the EDC in a package bill. Observers believe that this bill will be passed, but that subsequent bills to carry out the terms of the contract may face sterner tests, including constitutional court scrutiny.

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CHINESE NATIONALIST POLITICAL DEPARTMENT IMPEDES US
EFFORTS TO REORGANIZE ARMED FORCES

The Chinese Nationalist Armed Forces have not been considered an effective combat organization for some years and, since the Nationalist retreat to Formosa in 1949, have been regarded by most American military observers as incapable of defending that island from Communist attack. In the spring of 1951 the US Military Assistance and Advisory Group was dispatched to Formosa for the purpose of reorganizing the Nationalist Armed Forces. One of the most serious impediments encountered by the MAAG has been the program of the Political Department of the Ministry of National Defense, headed by Major General Chiang Ching-kuo, the Moscow-trained elder son of Chiang Kai-shek.

The ostensible functions of the Political Department within the Armed Forces include psychological warfare, political indoctrination, and other "morale-building" activities. Actually, however, the political officers devote themselves primarily to counterintelligence activities, seeking to detect both Communist agents and other personnel in the Armed Forces who are not completely loyal to Chiang Kai-shek. The latter include both patriotic Chinese who oppose Communism but reject the present Kuomintang leadership, and those who have no strong political convictions.

To implement this program, political officers are assigned to accompany all units and to report on the activities of the unit commanders. American observers have estimated that there are between 30,000 and 70,000 political officers in all on Formosa, while the political officers assigned to the Army alone reportedly number 15,000.

Aside from detection of Communist agents, the other activities of the Political Department are considered by US observers to be detrimental to the morale and efficient operation of the Armed Forces. More specifically, the system is said to nullify the normal chain of command, and make coordinated operations impossible. It is reported that 15 to 25 percent of training time in the Armed Forces is devoted to political indoctrination alone.

Realizing that the continued existence of the Nationalist regime depends on US support, the Nationalist Government has recently made minor modifications in the program of the Political Department. General Chiang Ching-kuo has requested that an American adviser be appointed to the Political Department and that US observers go into the field with the political officers to observe their methods of operation. Time spent in political indoctrination will be cut to 10 percent to allow more time to be devoted to military subjects. To assure further American support, the Nationalists have consented to prepare the military sections of the budget in consultation with the MAAG

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and to allow subsequent review by the Economic Stabilization Board, on which US officials are represented as observers.

Despite these concessions, the political officer system as now constituted will impair the capabilities of the Nationalist Armed Forces as long as Chiang Kai-shek considers the existence of this system essential to his continuation in power.

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SPECIAL ARTICLE

CURRENT SOVIET POLICY TOWARD JAPAN

After its diplomatic defeat at San Francisco, the USSR has apparently adopted a policy designed to neutralize Japan as a potential threat to the Soviet Union. A secondary objective of the Kremlin is to create a trade pattern which will obtain some benefits from Japanese industry for the Soviet Orbit in the Far East. Soviet plans also call for a militant Japanese Communist Party program devoted to obstructionism and the weakening of a US-Japanese alliance.

In the Soviet view, it is improbable that the West can create an effective military alliance in the Far East without Japan, any more than the West can hope to create an effective military alliance in Europe without Germany.

As a means of fostering Japanese good will, the USSR recently, for the first time since the end of the war, made several direct and conciliatory overtures to prominent Japanese. Two Soviet Mission representatives called on Diet members on 2 November to propose a resumption of Soviet-Japanese trade; there was also a conference with Japanese businessmen on 26 November for the same purpose; and top Japanese officials were invited to the Mission's October Revolution celebration on 7 November.

Perhaps to implement this initiative, the USSR recalled a fairly large number of Soviet Mission military personnel about 1 December and replaced them with a smaller group of economic specialists. Moscow has requested a model copy of Japan's trade agreements and has shown an interest in Japanese trade procedures.

This action may be an indication that the Soviet Government plans to retain representatives in Japan under the guise of a trade office. When the peace treaty comes into force, possibly in the spring of 1952, the USSR will still be technically at war with Japan and therefore will have no clear legal basis for continued operation of its present Mission in Tokyo. As early as August 1950, however, Soviet officials made several surveys of the former Russian Consulate on Hokkaido and offered bids for its reconstruction, and in August 1951 Moscow applied for the acquisition of property rights for "diplomatic purposes."

A trade office, aside from serving as a convenient observation post and liaison center with the Japanese Communist Party, would have the obvious advantage of offering Soviet Orbit trade inducements

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The Soviet Government might prefer to re-establish commercial relations with Japan before the development of any substantial Chinese-Japanese trade. From the Kremlin's viewpoint an early development of such relations between the two most important Far Eastern nations might tend to enhance Communist China's position as a power in that area while reducing Peiping's dependence on the USSR.

It seems unlikely that the prewar pattern of economic relations between the Soviet Union and Japan can be restored, particularly in the matter of fisheries. Since the Soviet Union's occupation of all of Sakhalin as well as the Kurile Islands, Moscow has undertaken to develop its Far Eastern fishing resources, and, with the added considerations of frontier security, may be reluctant to renew prewar fishing agreements unless Japan is willing to make political or economic concessions.

While its foreign policy is thus devoted to securing the neutralization of Japan and exploiting the Japanese economy for the Soviet Orbit, the USSR has also endorsed a militant Japanese Communist Party program designed to obstruct recovery, foster nationalism, and weaken Japan's alliance with the US.

Pravda's endorsement on 24 November of the Japanese Communist program adopted in August apparently gave the green light for the abandonment of the more moderate Communist tactics of recent years and the revival of the militant policy advocated in the early days of the occupation. Recently, Radio Moscow increased its charges that Japanese military forces are assuming greater importance in US plans for "world aggression" and again constitute a threat to all nations in the Far East.

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The Japanese Communists are not considered capable of establishing an effective armed organization without substantial foreign aid. Increased

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[REDACTED]

outside Communist assistance for subversive activities in Japan, particularly in sensitive spots such as Hokkaido, may soon be forthcoming.

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[REDACTED]

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[REDACTED] There is no reliable evidence that the USSR intends an early invasion of Japan; the new Soviet policy would rather indicate a long-term effort to gain major Soviet influence by other means.

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